FISCAL POLICY AND ITS ROLE IN ADDRESSING UNEMPLOYMENT IN IRAQ (2010-2020)

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Abstract
Unemployment is one of the most serious economic and social problems facing the Iraqi economy. At the time unemployment in Iraq worsened significantly after 2010 due to political and security changes, compounded by the rentier structure of the oil-dependent economy. This research aims to analyze the role of fiscal policy, through its instruments of government spending, tax revenues, and public debt, in addressing unemployment in Iraq during the period 2010-2020. The research employed a descriptive-analytical approach, utilizing data from the Central Bank of Iraq and the Ministry of Planning. The study found an economic relationship between fiscal policy and unemployment; however, this relationship was not sufficiently effective due to the dominance of consumer spending over investment spending, weak tax revenues, and fluctuating oil prices, which negatively impacted financial stability. The research recommends restructuring government spending to favor investment, diversifying revenue sources, and supporting the private sector and labor-intensive sectors such as agriculture and tourism.

1. Introduction

Unemployment is one of the most complex economic and social problems plaguing the economies of most countries, whether developed or developing, due to its painful political, social, and economic repercussions that affect human dignity and livelihood (Al-Halawi, 1984; Al-Wadi, 2006). These problems cannot be addressed safely duringPoliticsFinance and its instruments, as it forms a key axis in the treatment unemployment and to reduce its devastating effects (Al-Lawzi & Khalil, 2005).

The Iraqi economy represents a unique model of the structural challenges facing rentier states, as it suffers from deep structural imbalances resulting from decades of wars and economic sanctions (Central Bank of Iraq, 2020). These imbalances are manifested in the dominance of oil revenues, the weakness of the private sector, and the bloated public sector. In this context, the role of fiscal policy stands out. Fiscal Policy as the main tool that the government has to influence economic activity, through its tools of public revenues, public expenditures and budgets, with the aim of achieving its goals of stability, growth and reducing unemployment.

The importance of this research stems from its aim to analyze the role of fiscal policy in addressing unemployment in Iraq. Through (Revenues, expenditures, deficit, and budget) in unemployment rates, through a review of the developments witnessed in this policy. The research aims to answer a key question: How effective is fiscal policy in addressing the phenomenon of unemployment in the Iraqi economy? And what are the ways to maximize this role in light of the current challenges?

1.1. Research Methodology

1.1.1. Research problem

Unemployment is one of the most prominent challenges facing the Iraqi economy, and its severity has increased following the political and security changes that Iraq has witnessed since 2010 (Central Bank of Iraq, 2020). These changes have led to the suspension of many economic

projects, weakened investment, and a decline in productive activity (Ministry of Planning, 2020). Despite the government's adoption of expansionary fiscal policies aimed at supporting the public sector and stimulating aggregate demand, these policies have not achieved the desired results in reducing unemployment rates. This is due to structural challenges and shortcomings in directing spending towards productive sectors. Therefore, the research problem can be formulated in the following question: How effective was fiscal policy in addressing unemployment in Iraq during the period (2010-2020)?

1.1.2. Importance of the research

The importance of this research lies in its examination of unemployment in one of the most important developing economies, which suffers from structural distortions and political and security instability, making it difficult for fiscal policies to achieve their objectives. The research also contributes to providing an analytical perspective on the reality of fiscal policy and its impact on the labor market, thus benefiting decision-makers in guiding future policies.

1.1.3. Objectives of the Research

This research aims to clarify the impact of fiscal policy, represented by government spending, tax revenues, and public debt, on reducing the unemployment rate in the Iraqi economy during the period 2010–2020.

1.1.4. Research hypothesis

The research assumes an economic relationship between fiscal policy and unemployment in Iraq, and that practical increased investment spending and revenue diversification can contribute to reducing unemployment rates in Iraq.

1.2. The theoretical framework of fiscal policy and unemployment

1.2.1. Fiscal policy: concept, tools, and objectives

The concept of fiscal policy

Fiscal policy is defined as a set of measures and tools used by the state to influence economic activity by adjusting the size of public revenues and expenditures, with the aim of achieving economic and social objectives such as economic stability, growth, equitable income distribution, and addressing unemployment and inflation (Al-Lawzi & Khalil, 2005; Nashad, 2010). The concept of fiscal policy has evolved from the neutral role of the state in classical thought, where its functions were limited to security, defense, and justice, to an active interventionist role following the 1929 crisis, whereby the state began using its fiscal instruments to achieve macroeconomic equilibrium (Nashad, 2010).

Fiscal policy tools

Government spending policy: This is a key tool for influencing aggregate demand, encompassing both current (consumer) and investment spending. Increased investment spending leads to greater job creation, while consumer spending merely stimulates demand without generating sustainable employment opportunities (Abdel-Samie, 2006).

Tax policy: This affects the level of disposable income available to individuals and businesses, and consequently, consumption and investment. It can be used to redistribute income, support low-income earners, and stimulate investment in specific sectors (Nashad, 2010).

Public debt policy: It affects the amount of liquidity available in the economy and the state's ability to finance the budget deficit, but debt should be directed towards productive investments to avoid negative effects (Al-Lawzi & Khalil, 2005).

Financial policy objectives

The objectives of financial policy are to achieve a minimum standard of living for citizens, address inflation, achieve low unemployment rates, maintain price stability, and achieve sustainable economic growth (Nashad, 2010; Al-Lawzi & Khalil, 2005).

1.3. The theoretical framework of unemployment

1.3.1. Unemployment: Concept, Types, Causes, and Measurement

The concept of unemployment

Unemployment is defined as the situation of individuals who are able, willing, and actively seeking work, but cannot find employment at the prevailing market wage (Al-Halawi, 1984; Rouge, 2005). The International Labour Organization (ILO) defines it as the situation of a person who is over a certain age, is able, willing, and actively seeking work, and is not employed. Exceptions include discouraged workers, those working less than full-time involuntarily, students, and retirees.

Types of unemployment

Cyclical unemployment: It arises as a result of the fluctuations of the economic cycle of recession and boom, and appears during periods of recession when aggregate demand decreases.

Seasonal unemployment: It is linked to changing seasons and climatic conditions, and appears in sectors such as agriculture and tourism.

Frictional unemployment: This occurs as a result of workers moving between jobs, or because workers' skills do not match market requirements.

Disguised unemployment: This is characterized by a surplus of labor, resulting in a low or zero marginal output of labor, and is clearly evident in the public sector in developing countries.

Structural unemployment: resulting from changes in the structure of the economy, such as technological shifts or changes in demand patterns (Al-Halawi, 1984; Rouge, 2005).

Causes of unemployment in developing countries

The causes of unemployment in developing countries include economic backwardness and a weak production base, reliance on rent (oil) and a lack of economic diversification, weak investment and declining investment spending, rapid population growth compared to job opportunities, unwise economic policies, as well as unstable political and security conditions (Al-Shara, 2017).

Measuring the unemployment rate

The unemployment rate is calculated as the ratio of the number of unemployed to the total labor force (employed + unemployed) multiplied by 100. Accurate measurements rely on household surveys, which are a more reliable source compared to insurance records and employment offices (Ministry of Planning, 2020).

2. Method

This is a descriptive-analytical research based on studying the effect of fiscal policy in unemployment solving by examining to reflect this role in Iraq over the time period between 2010–2020. The descriptive approach is to use this method to describe the trends and characteristics of indicators of fiscal policy, and unemployment analytical approach is applied to estimate the relationship between instruments of fiscal policy and the unemployment rate.

The study relies entirely on secondary data drawn from official government sources, mainly the Central Bank of Iraq's Annual Statistical Bulletins and the Ministry of Planning's Annual Statistical Abstracts. Together these publications cover the macroeconomic indicators needed for the analysis: government expenditure, tax revenue, inflation, public finance, and unemployment over the study period.

The analysis centers on a set of fiscal policy indicators, government expenditure (both consumption and investment spending), tax revenue, and inflation, with the unemployment rate treated as the main measure of labor market performance. These variables were chosen because they capture the government's fiscal stance and how it might affect employment.

The data are examined using descriptive methods: trend analysis, percentage analysis, and comparisons across the eleven years covered by the study. Tables summarize the yearly movement of the fiscal variables and unemployment rate, and this is followed by interpretation aimed at identifying patterns and judging how effective fiscal policy has been at reducing unemployment in Iraq. The results are then read against fiscal policy theory and the economic conditions Iraq experienced during the period studied.

3. Results and Discussion

3.1. The reality of fiscal policy and unemployment in Iraq (2010-2020)

3.1.1. The evolution of government spending in Iraq

Table 1 shows the development of government spending, with its consumption and investment components, during the period (2010-2020) at current prices.

Table 1. The reality of government spending in its two components, consumption and investment (million dinars)

Consumer spending	Total government spending	year
45,480,860,4	610342018	2010
60,925,553,4	79,6576663	2011
75,788,623,7	105,139,575,7	2012
78,746,806,3	119,127,556,3	2013
76,741,672,6	112,192,125,0	2014
56,916,476,0	82,813,611,0	2015
55,162,767,0	73,571,003,0	2016
59,025,654,0	75,490,115,0	2017
67,052,856,0	80,873,189,0	2018
87,301,000,0	111,723,523,0	2019
72,873,538,0	76,082,443,0	2020
55,382,581,5	72,925,135,5	average

Source: Central Bank of Iraq (2020), Annual Statistical Bulletins (2010-2020).

The table 1 shows that average consumer spending accounted for 77.86% of total government spending, while average investment spending did not exceed 22.03%, reflecting the dominance of consumption over investment. Total government spending peaked in 2013 and then declined in subsequent years due to falling oil prices and security conditions. This finding supports previous studies indicating that excessive current expenditure weakens fiscal policy effectiveness (Mashkour & Al-Helou, 2016)

3.1.2. The reality of tax revenues

Table 2 shows the development of public revenues and tax revenues during the period (2010-2020).

Table 2. Public revenues and tax revenues (million dinars)

Ratio (%)	Tax revenues	Public revenues	Year
2.1	1503516	70178223	2010
1.3	1408184	103989088	2011
1.9	2311139	119817222	2012
2.2	2518683	113840075	2013
1.7	1891538	105553850	2014
3.3	2226610	66470252	2015
7.2	3898068	53413446	2016
7.5	5809733	77422173	2017
5.3	5686203	106569834	2018
3.7	4014524	107566955	2019
7.4	4718189	63199689	2020

Source: Central Bank of Iraq (2020), Annual Statistical Bulletins.

Public revenues are almost entirely dependent on oil, with tax revenues accounting for only 7.5% during the study period. This low tax revenue indicates the limited role of fiscal policy in income redistribution and investment direction, and weakens the government's ability to cope with economic fluctuations. Similar findings were reported by Al-Lawzi and Khalil (2005).

3.1.3. The evolution of inflation rates

Table 3 records the inflation rates in Iraq for the period (2010-2020).

Table 3. Inflation rates in Iraq

Inflation (%)	Year
2.46	2010
5.60	2011
6.06	2012
1.86	2013
2.24	2014
1.44	2015
0.07	2016
0.20	2017
0.40	2018
0.20	2019
1.01	2020

Source: Ministry of Planning (2020), Central Statistical Organization, Annual Statistical Collections.

Inflation rates were relatively high in 2011-2012 as a result of increased government spending, then declined significantly after 2013 due to price stability and lower demand, but they remained at low levels, reflecting weak aggregate demand rather than genuine economic stability.

3.1.4. The reality of unemployment in Iraq

Table 4 shows the unemployment rates and population for the period (2010-2020).

Table 4. Unemployment rates and population in Iraq

population	Unemployment rate (%)	Year
29,741,977	16.8	2010
30.725.303	18.0	2011
31,890,012	21.8	2012
33.157.061	16.4	2013
34,411,949	11.1	2014
35,572,269	10.3	2015
36.610.632	10.8	2016
37,552,789	13.8	2017
38,433,604	22.6	2018
39,309,789	18.2	2019
40.222.503	13.8	2020

Source: Central Bank of Iraq (2020), Annual Reports.

Unemployment rates ranged between 10.3% (2015) and 22.6% (2018), with significant variations reflecting the impact of security and economic conditions. Unemployment decreased in 2014–2016 due to many young people joining the security forces, but it rose again in 2018–2019 as a result of declining government employment and weak private investment.

3.1.5. Analyzing the relationship between fiscal policy and unemployment

By reviewing government spending data, revenues, and unemployment rates, the following can be observed: 1) Weak investment spending: Despite the increase in total government spending, the largest part was directed towards consumption, which limited the creation of new job opportunities. 2) Reliance on government employment: The government did not adopt an operational policy through the private sector, but rather resorted to expanding employment in the

public sector, which increased the financial burdens without a radical solution. 3) Revenue fragility: The almost total dependence on oil has made fiscal policy hostage to price fluctuations. 4) Lack of economic diversification: The weakness of the agricultural and industrial sectors has led to a concentration of labor demand in the government sector only.

4. Conclusion

By analyzing the reality of fiscal policy and unemployment in Iraq for the period (2010–2020), the following conclusions can be drawn. The findings indicate the dominance of consumer spending over investment spending, with the average percentage of consumer spending reaching 77.86%, compared to 22.03% for investment spending. In addition, non-oil revenues, especially tax revenues, remained weak and did not exceed 7.5% of total revenues. Furthermore, unemployment rates were closely linked to security and economic fluctuations. The study also found that the expansionary fiscal policy failed to address unemployment because the expansion was concentrated in consumer spending rather than investment. Moreover, both external shocks, particularly fluctuations in oil prices, and internal shocks affected the stability of fiscal policy. Consequently, the worsening unemployment situation contributed to increased rates of poverty and migration. And the recommendations based on the above finding is the research recommends restructuring government spending in favor of investment so that the ratio of investment spending increases to at least **40%** of total spending. In addition, it is recommended to diversify revenue sources by developing the tax system, expanding the tax base, and combating tax evasion. The government should also support the private sector by providing financing, facilitating procedures, and offering incentives, while paying greater attention to labor-intensive sectors such as agriculture, tourism, and small and medium-sized industries. Furthermore, education and training outputs should be linked to labor market needs, and a national employment strategy based on long-term planning should be developed. Finally, enhancing political and security stability is essential to attract investments, while launching a media campaign to change the work culture and promote manual labor is expected to support sustainable employment opportunities.

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